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SUBJECT: LULA FINALLY GETS A BREAK - CONGRESS SUPPORTS HIS  
MINIMUM WAGE HIKE

1. (SBU) SUMMARY. Brazilian President Lula da Silva broke his losing streak on June 23 when the Chamber of Deputies voted to ratify his Presidential Decree raising the minimum wage from R\$240 to R\$260 (about US\$ 87) per month. This vote follows a series of defeats Lula has suffered in Congress, caused by a fractured coalition and coming on top of polls showing his popularity has slipped. While this vote does not fully restore Lula's political authority, it should help end the worst phase of his presidency --a losing streak that began on February 13 when the "Waldomiro scandal" broke, revealing that one of Lula's advisors had solicited bribes from a numbers racketeer. With municipal elections coming up in October, Lula is surely breathing a sigh of relief that he may be able to reconfirm his coalition and begin queuing up his legislative agenda for late 2004 and 2005. END SUMMARY.

2. (SBU) On June 23, the Brazilian Chamber of Deputies voted 272-172 to ratify a Presidential Decree issued by President Lula on April 30 that raised the minimum wage from R\$240 to R\$260 per month. This raise was criticized both inside and outside Lula's coalition for being so small it barely covers inflation. Presidential decrees must be approved by Congress, and this one had a torturous path to ratification that carried the administration on a six-week roller coaster ride. Far more than the numerical level of the minimum wage was at stake: the strength of Lula's eight-party coalition was being tested, and the opposition sensed his weakness and began pressing to defeat his legislative agenda. A loss on the minimum wage would have called into question the President's ability to pass any future bills. Lula himself lobbied hard for passage and deployed his cabinet ministers and political advisors to work the corridors of Congress on his behalf.

3. (SBU) On June 2, Lula's coalition in the Chamber beat back an opposition proposal to raise the wage as high as R\$275 per month (a raise that Lula calls fiscally impossible). But when the measure went to the Senate on June 17, several administration allies either abstained or voted for the opposition's R\$275 proposal, suggesting Lula had lost legislative authority in the upper house. The measure then went back to the Chamber for the final decision, and the June 23 vote ratifying the Lula-decreed R\$260 wage allows the administration to breathe a sigh of relief.

4. (SBU) The matter is now closed. Candidates for Lula's Workers' Party (PT) running for local office in the October elections are certain to be criticized for not endorsing a higher wage, but this had become a must-win battle for the administration. As it stands, Lula's authority in Congress is bent but not broken. His coalition in the Chamber is more dependable than in the Senate, and Chamber Speaker Joao Paulo Cunha (PT-Sao Paulo) is certain to reap Lula's gratitude (pundits say he may get a cabinet slot in the next Ministerial shuffle). Lula will live to fight another day in Congress.  
HRINAK